

Message Text

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C O N F I D E N T I A L STATE 138834

E.O. 11652: XGDS

TAGS: ENRG, EINV, MY

SUBJECT: CONOCO GIVES UP IN MALAYSIA

1. ON MAY 29, BEFORE AMBASSADOR'S DEPARTURE ON CONSULTATIONS AND LEAVE, CHARLES BRENNIG, CONTINENTAL OIL COMPANY'S REPRESENTATIVE IN KUALA LUMPUR, INFORMED HIM CONFIDENTIALLY THAT CONOCO HAD DEFINITELY DECIDED TO CLOSE OUT ITS OPERATIONS IN MALAYSIA AS OF JULY 1, 1978. HE SAID PETRONAS HAD BEEN INFORMED, CONOCO'S EMPLOYEES GIVEN NOTICE, AND HE HIMSELF WAS LEAVING IN MID-JUNE ON TRANSFER TO TUNIS. BRENNIG SAID HE WAS CURRENTLY ENGAGED IN DISCUSSIONS WITH PETRONAS' MANAGING DIRECTOR "TO SEE IF ANYTHING COULD BE SALVAGED" IN TERMS OF CONOCO'S INVESTMENT.

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2. BRENNIG REVIEWED THE BACKGROUND OF CONOCO'S EFFORTS IN MALAYSIA. HE NOTED THAT CONOCO HAD BEEN IN PARTNERSHIP IN THESE EFFORTS WITH EL PASO GAS (25 PERCENT) AND BHP, AUSTRALIA'S LARGEST STEEL COMPANY (ALSO 25 PERCENT), AND THAT OVER THE PAST THREE YEARS THIS PARTNERSHIP HAD SPENT SOME US 45 MILLION DOLS. BRENNIG RECALLED FURTHER THAT HE AND HIS NEGOTIATORS (FROM HOUSTON) HAD HAD ONLY A TOTAL OF

26 MEETINGS WITH PETRONAS OVER THE PAST THREE YEARS, AND THAT SOME OF THESE MEETINGS HAD LASTED ONLY THREE MINUTES. IN HIS VIEW, CONOCO AND ITS PARTNERS HAD BEEN TREATED "LESS THAN COURTEOUSLY" BY PETRONAS OFFICIALS.

3. BRENNIG SAID THAT EL PASO HAD EFFECTIVELY WITHDRAWN FROM THE PARTNERSHIP SEVERAL MONTHS AGO, AND THAT ALL THREE PARTNERS WERE CURRENTLY EXAMINING THEIR LEGAL POSITION AND WHETHER OR NOT TO SUE THE GOM TO RECOVER SOME OF THEIR LOSSES. BRENNIG SAID HE PERSONALLY HAD RECOMMENDED AGAINST SUCH ACTION TO HIS AUTHORITIES, FEELING THAT THERE WAS LITTLE POINT IN ENGAGING CONOCO IN A BITTER FIGHT WITH THE GOM. HE FELT CONOCO HAD PLENTY TO OCCUPY ITSELF WITH ELSEWHERE IN THE WORLD, AND NEED NOT ENGAGE IN RECRIMINATIONS OVER ITS EXPERIENCE IN MALAYSIA.

4. BRENNIG CHARACTERIZED THE IMMEDIATE CAUSE OF THE BREAKDOWN IN NEGOTIATIONS AS STEMMING ON THE ONE HAND FROM PETRONAS' INABILITY OR UNWILLINGNESS TO DEVIATE FROM THE PRODUCTION-SHARING FORMULA REACHED WITH EXXON, AND PETRONAS' ACCOMPANYING FEAR THAT TO DO SO WOULD LEAD EXXON TO DEMAND "EQUAL TREATMENT; AND ON THE OTHER HAND CONOCO'S BELIEF THAT ITS PARTICULAR CIRCUMSTANCES PRECLUDED IT FROM ACCEPTING THE EXXON FORMULA. BRENNIG ACKNOWLEDGED THAT HE HAD RECOMMENDED THAT CONOCO BREAK OFF NEGOTIATIONS, AND THAT HIS RECOMMENDATION HAD BEEN ACCEPTED, AGAINST
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THE CONCLUSION THAT EVEN IF AGREEMENT COULD EVENTUALLY BE REACHED CONOCO AND ITS PARTNERS WOULD HAVE CONSTANT GRIEF WITH THE GOM. BRENNIG WENT ON TO SPECULATE THAT PETRONAS HAD ITS HANDS MORE THAN FULL WITH SHELL, EXXON, AND NOW WITH THE SHELL-MITSUBISHI LNG CONTRACT, AND THAT IT HAD INSUFFICIENT TRAINED AND EXPERIENCED PERSONNEL TO HANDLE ANOTHER COMPLEX NEGOTIATION AT THE SAME TIME. HE ALSO AGREED WITH THE AMBASSADOR'S SUGGESTION THAT THE GOM'S INSTINCT TO CONSERVE ITS PETROLEUM RESOURCES MAY HAVE ALSO PLAYED A ROLE IN RELEGATING NEGOTIATIONS WITH CONOCO TO A SECOND PRIORITY. BRENNIG FURTHER SUGGESTED THAT, DESPITE THE FAVORABLE ATTITUDES AND POLICIES TOWARD FOREIGN INVESTMENT OF THE PRIME MINISTER AND DEPUTY PRIME MINISTER, THERE IS AN INFLUENTIAL GROUP OF GOM OFFICIALS, INCLUDING MINISTER OF FINANCE (AND FORMER PETRONAS HEAD) RAZALEIGH, WHO HAVE A MUCH MORE NATIONALISTIC OUTLOOK AND WHO PREFER, AT LEAST IN THE PETROLEUM FIELD, TO RELY ON MALAYSIA'S OWN CAPACITY TO DEVELOP ITS RESOURCES AND TO DISCOURAGE FOREIGN INVESTMENT, EVEN IF THIS LONG DELAYED EXPLOITING MALAYSIA'S PETROLEUM RESOURCES. BRENNIG PREDICTED THAT SHELL AND EXXON WOULD EVENTUALLY FEEL THE SQUEEZE OF THIS ATTITUDE, AND THAT CONOCO'S EXPERIENCE WOULD DISCOURAGE

OTHER AMERICAN COMPANIES FROM INVESTING IN MALAYSIA.

5. BRENNIG SAID CONOCO DID NOT PLAN TO ANNOUNCE ITS WITHDRAWAL FROM MALAYSIA, BUT HE DID NOT KNOW PETRONAS' INTENTIONS. VANCE

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